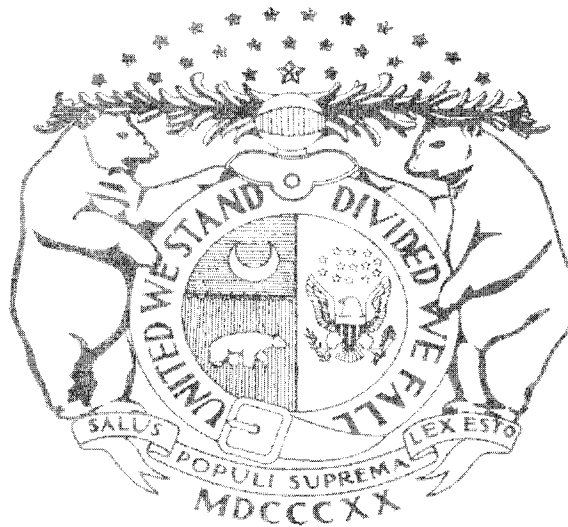


REPORT OF
FINANCIAL EXAMINATION

MISSOURI PHYSICIANS ASSOCIATES

As of:

DECEMBER 31, 2004



STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI

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March 21, 2006
St. Louis, Missouri

Honorable Alfred W. Gross, Commissioner
Bureau of Insurance
Virginia State Corporate Commission
Chairman, Financial Condition (E) Committee, NAIC

Honorable Ann Womer Benjamin, Director
Department of Insurance
State of Ohio
Secretary, Midwestern Zone, NAIC

Honorable W. Dale Finke, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Dear Sirs/Madam:

In accordance with your financial examination warrant, a comprehensive financial examination has been made of the records, affairs and financial condition of

Missouri Physicians Associates

hereinafter referred to as such or as the "Company". The Company's administrative office is located at 101 S. Hanley Road, Suite 1250, St. Louis, Missouri 63105, telephone number (314) 727-4555. Examination fieldwork began on February 6, 2006, and was completed on March 20, 2006.

SCOPE OF EXAMINATION

Period Covered

The last comprehensive financial examination of the Company was performed as of December 31, 2000, by examiners from the state of Missouri representing the Midwestern Zone of the NAIC (National Association of Insurance Commissioners) with no other zones participating.

The current financial examination of the Company covers the period from January 1, 2001, through December 31, 2004, and was conducted by examiners from the state of

Missouri. This examination also included material transactions or events occurring subsequent to December 31, 2004.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the state of Missouri prevailed.

Workpapers of the Company's independent auditor, Rubin, Brown, Gornstein & Co. LLP were made available to the examiners for review. Standard examination procedures were modified as deemed appropriate under the circumstances.

Comments - Previous Examination

Listed below are the comments of the previous examination report and the subsequent action taken.

1. Comment It is recommended that the Company comply with the filing requirements of Sections 382.010-382.302 RSMo (Insurance Holding Companies) and 20 CSR 200-11.

Company's Response The Company has submitted filings to correct omissions in disclosures noted by the Department. The Company will comply with filing requirements in the future.

Current Findings Review of correspondence with the Department's analysts indicated that the Company's filings were adequate.

2. Comment It is expected that the fees paid under the Amended and Restated Management Agreement, as well as other operating expenses, should be significantly lower subsequent to 2000. The Department reserves the right to have the management agreement resubmitted for approval and will consider the level of operating expenses, including officers' salaries, incurred by the company when approving future dividends or other corporate transactions.

Company's Response The Company regularly monitors and reviews all expenses paid under the Amended and Restated Management Agreement.

Current Findings The Company has made payments for management and staffing services that appear to be in line with the size and complexity of the business.

3. Comment The annual statement filed with the Missouri Department of Insurance was not prepared in accordance with the NAIC Annual Statement Instructions.

It is again recommended that the Company include the appropriate case basis

reserve in Schedule P of the annual statement for the Elsten claim.

The common capital stock of Missouri Physicians Insurance Company should be reclassified as gross paid in and contributed surplus as noted.

The General Interrogatories regarding the Company's Articles of Incorporation should be completed accurately as noted.

The reported \$3,000,000 reduction in the Company's surplus as a result of the merger of Missouri Physicians Insurance Company should be eliminated.

The capital contribution of \$3,000,000 to Missouri Physicians Services Corp. by Missouri Physicians Associates reported on Schedule Y Part 2 should be corrected as noted.

The reported unrealized gain of \$580,498 on the common stock of Missouri Physicians Services Corp. should be restated.

A common Schedule Y Part 2 should be prepared and included in the annual statement filed by each insurer member of the holding company system.

The transactions between AIM Auto Insurance Marketers, Missouri Physicians Services Corp. and National Automobile and Casualty Insurance Co. should be reported on Schedule Y Part 2.

The Schedule Y filed by Missouri Physicians Associates and National Automobile and Casualty Insurance Co. should be identical.

The investment in AIM Auto Insurance Marketers should be reported on Schedule D - Part 6.

Schedule T should show the states in which the Company is currently licensed.

Reinsurance premiums payable including accrued retrospective premiums should be reported as offsets to direct premiums receivable.

It is recommended the Company implement procedures to ensure that the data reported in Schedule P is accurate and complete.

The Company is also reminded that the NAIC Annual Statement Instructions specify that the actuarial report and actuarial workpapers including the reconciliation of the data to Schedule P must be maintained at the Company's office and be available within two weeks after a request from the Department of Insurance.

Contributions to the Missouri Property and Casualty Guaranty Association should be non-admitted.

The Company is directed to amend its 2000 Annual Statement filing and to assure that proper procedures are in place to correctly file subsequent Annual Statements.

Company's Response The Company filed an amended annual statement to correct the deficiencies noted by the Department.

Current Findings These weaknesses had been corrected. Disclosures in the annual statement were either appropriately made or were no longer applicable.

HISTORY

General

The Company was incorporated on January 16, 1976, under Chapter 383 RSMo (Malpractice Insurance) as a mutual malpractice insurance company and commenced business on February 7, 1976.

On November 12, 1982, the Company changed its name from Medical Defense Associates, Ltd. to Medical Defense Associates.

Effective June 20, 1995, the Company converted from a mutual company under Chapter 383 RSMo (Malpractice Insurance) to a stock company under Chapter 379 RSMo (Insurance Other than Life).

In April 2000, control of the Company's parent, Missouri Physicians Group Holding Co., was acquired by Ivy Medical, LLC.

In May 2000, the Company changed its name to Missouri Physicians Associates and its subsidiary, Medical Defense Insurance Company changed its name to Missouri Physicians Insurance Company.

In November 2000, the Company's subsidiary, Missouri Physicians Insurance Company, merged into the Company.

On May 20, 2004, the MDI approved a Form A filing by Bush O'Donnell & Company. The purpose of this filing was for the acquisition of Alliance for Community Health, LLC doing business as Community Care Plus ("CCP"). A mid-level Company by the name of CCP Acquisition was created for the sole purpose of this acquisition of CCP, and is wholly owned by Missouri Physicians Associates. No other changes to the organizational chart to which the Company belongs have occurred since the CCP purchase.

Capital Stock

The Company has authority to issue 1,200,000 shares of common stock with a par value of \$1.00 per share. As of December 31, 2004, all of the shares were outstanding for a balance of \$1,200,000 in the common capital stock account. All shares were owned by Bush-O'Donnell & Co., Inc.

Dividends

During the period being examined, the Company paid dividends to the sole stockholder as follows:

2001	\$	5,411,000
2002		4,500,000
2003		-
2004		3,500,000
Total	\$	13,411,000

Management

The members of the board of directors serving at December 31, 2004, were as follows:

<u>Name and Location</u>	<u>Business Affiliation</u>
James V. O'Donnell St. Louis	President Bush O'Donnell & Co., Inc.
William H. T. Bush St. Louis	Chairman Bush O'Donnell & Co., Inc.
Kay E. Cameron St. Louis	Director Missouri Physicians Associates
Richard E. Fister St. Louis	President Fister & Associates, Inc.
Matthew J. Koster St. Louis	President Missouri Physicians Associates
Robert J. Mathias St. Louis	Senior Banker LaSalle Bank
Wayne L. Smith II St. Louis	Vice-President Missouri Physicians Associates
Mark J. Reed St. Louis	Director Missouri Physicians Associates

Mimi S. Taylor
Altadena, CA

Director
Missouri Physicians Associates

The officers elected and serving as of December 31, 2004, were as follows:

<u>Name</u>	<u>Office</u>
Matthew J. Koster	President
James V. O'Donnell	Secretary, Vice President and Chairman
Wayne L. Smith II	Treasurer, Vice President
Christine M. Noonan	Chief Financial Officer and Assistant Secretary
William H.T. Bush	Vice Chairman

Conflict of Interest

Conflict of interest disclosures were reviewed for all board members and officers. The disclosures did not reveal any conflicting situations. However, the disclosures were, in most instances, old. Many were signed in 1999 while others were made in 2001. Only one was completed in 2003 and none were updated to 2004. The Company should periodically (preferably annually) require that directors and officers update their conflict of interest disclosures.

Corporate Records

Board meeting minutes were reviewed for the meetings held during the examination period. Attendance was adequate and the minutes documented significant company transactions.

The Department of Insurance received affidavits, on December 5, 2001, acknowledging receipt of the previous Report of Examination.

Acquisitions, Mergers, and Major Corporate Events

On May 28, 2004, the Company, through its subsidiary, CCP Acquisition, Limited, acquired Alliance for Community Health, LLC. The specific ownership is shown in organizational chart below.

Surplus Debentures

The Company has no surplus debentures.

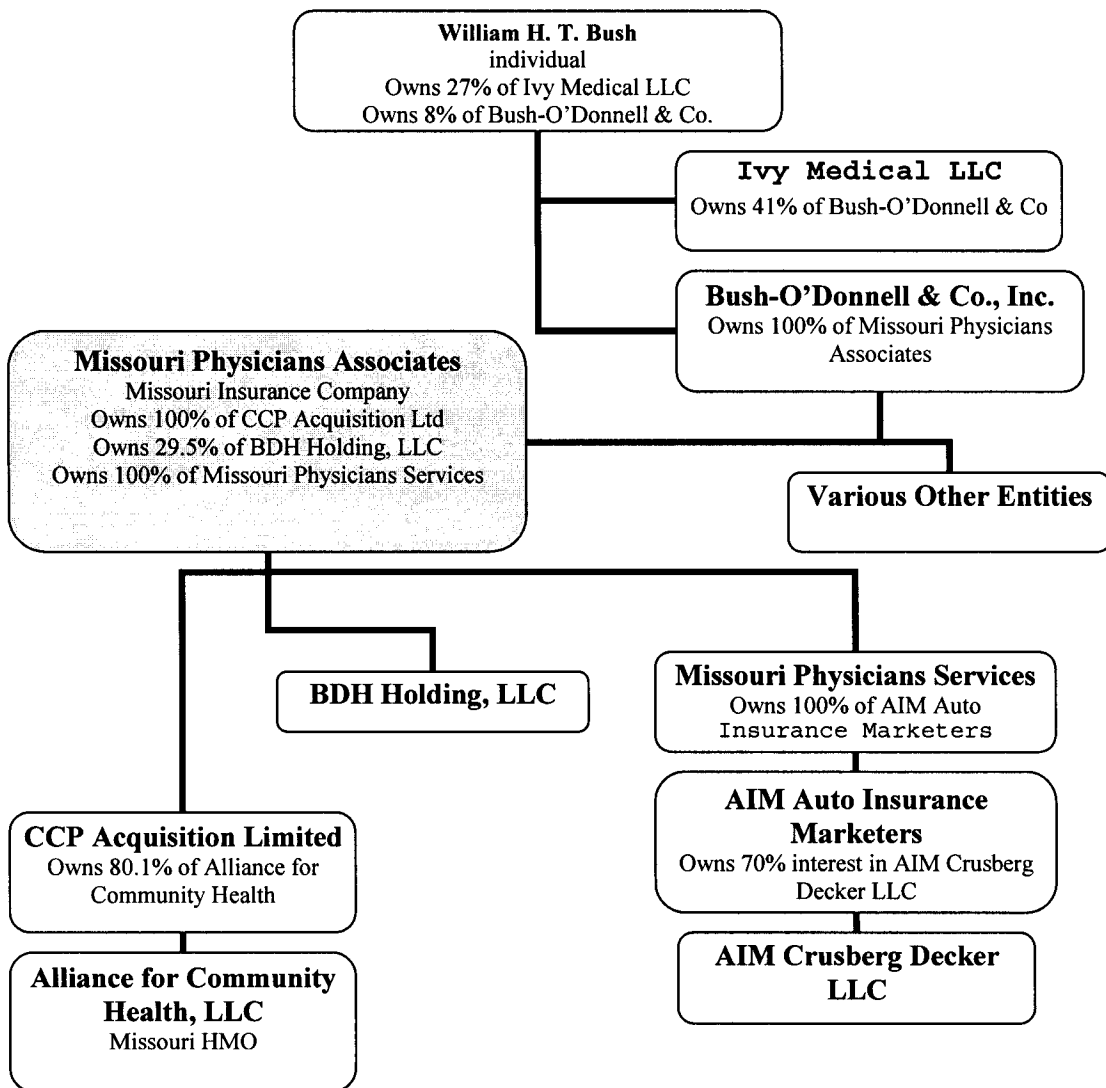
AFFILIATED COMPANIES

Holding Company

The Company is a member of an Insurance Company Holding System as defined by Section 382.010 RSMo (Definitions). The Company's most recent Form B filing stated that William H. T. Bush was the ultimate controlling entity. The following organizational chart shows the relative ownership interests of all the affiliates.

Organizational Structure

The following organizational chart depicts the ownership structure of the Company:



Payments to Affiliates

The Company made the following payments for management services provided by Missouri Physicians Services Corporation:

2001	\$	285,684
2002		198,082
2003		229,757
2004		151,807
Total	\$	<u>865,330</u>

FIDELITY BOND AND OTHER INSURANCE

The Company has fidelity coverage provided through a policy from American International Specialty Lines Insurance Company. The coverage limit is \$3,000,000 with a deductible of \$150,000. This is adequate to meet the minimum suggested coverage as outlined in the Financial Condition Examiners Handbook.

The Company also participates with its parent in various insurance coverages as follows:

Umbrella	Commercial Automobile Coverage
Property Insurance	Financial Institution Bond
Property Insurance Newly Acquired	Computer Crime Coverage
Various business income coverage	Workers Compensation
Directors and officers	

EMPLOYEE BENEFITS AND PENSION PLAN

The Company has no employees. Personnel are provided by employees of Missouri Physicians Services. Those employees receive compensation and benefits comparable to those in similar businesses.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The U.S. Treasury Notes on deposit with the Missouri Department of Insurance were sufficient in par and market value to meet the deposit requirement for the state of Missouri in accordance with Sections 379.098 RSMo (Securities deposit).

<u>Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
U. S. Treasury Note	1,905,000	1,897,190	1,904,242
U. S. Treasury Note	<u>1,010,000</u>	<u>1,004,546</u>	<u>1,005,564</u>
Total	<u>2,915,000</u>	<u>2,901,736</u>	<u>2,909,806</u>

Deposits with Other States

The Company had no funds on deposit with any other state as of December 31, 2004.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is authorized to write property and casualty insurance in the states of Missouri and Kansas. Currently, the Company is not writing any business and existing claims are in run-off. Remaining claims are all from Missouri. The Company does not plan to begin writing coverages again.

Underwriting Practices and Customer Relations

The Company is not writing any renewals or new business. The only activity is managing the remaining claims.

The Missouri Department of Insurance has a market conduct staff, which performs a review of these issues. However, since this company is no longer issuing policies, no market conduct reviews have been performed since 1993.

REINSURANCE

Assumed

None

Ceded

Reinsurance protection is provided through a 100% quota-share reinsurance contract with Medical Assurance Co., Inc. The Company ceded all losses arising from claims incurred after 12:01 a.m., January 1, 1999 through a 100% quota-share reinsurance contract. Since the Company ceased writing new business as of January 1, 1999, the reinsurance covers only those policies that expired during 1999. All of those policies were written on a claims-made basis.

ACCOUNTS AND RECORDS

Independent Auditor

For the years 2001, 2002 and 2003, the Company's financial statements were audited by the firm of PriceWaterhouseCoopers LLP. Rubin, Brown, Gornstein & Co. LLP audited the financial statements for 2004.

Independent Actuary

Loss and loss adjustment expense reserves were evaluated and certified by the Company's consulting actuary, Robert Sanders, FCAS, MAAA of Milliman USA, Inc. for each year covered by this examination.

Occurrence Policies

The Company is still potentially liable for occurrence policies. The last occurrence policies offered by the Company expired during 1987. Potential losses for those coverages will exist for 20 years after the policy expired. The Company does not foresee significant losses from this block of business.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2004, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual annual statement item.

BALANCE SHEET
December 31, 2004

ASSETS

	Assets	Nonadmitted	Net Admitted Assets
Bonds	\$ 2,909,806	\$ -	\$ 2,909,806
Preferred stocks	975,003	-	975,003
Common stocks	14,891,463	-	14,891,463
Cash and short-term investments	1,576,815	-	1,576,815
Other invested assets	3,101,061	-	3,101,061
Investment income due and accrued	25,150	-	25,150
Amounts recoverable from reinsurers	(171)	-	(171)
Federal income tax recoverable	293,987	-	293,987
EDP equipment	2,343	-	2,343
Receivables from parent, subs and affiliates	210,829	-	210,829
Total Assets	<u>\$ 23,986,286</u>		<u>\$ 23,986,285</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$ 1,402,340
Loss adjustment expenses	1,230,229
Other expenses	49,323
Net deferred tax liability	323,985
Amounts withheld for account of others	12,503
Aggregate write-ins for liabilities	33,297
Total Liabilities	<u>\$ 3,051,677</u>
Common capital stock	1,200,000
Gross paid in and contributed surplus	8,600,000
Unassigned funds (surplus)	11,134,608
Total Surplus	<u>\$ 20,934,608</u>
Total Liabilities and Surplus	<u>\$ 23,986,285</u>

INCOME STATEMENT
For the Year Ending December 31, 2004

Premiums earned		-
Losses incurred	(264,632)	
Loss expenses incurred	175,174	
Other underwriting expenses incurred	396,422	
Total underwriting deductions	<u>306,964</u>	
Net underwriting gain (loss)		(306,964)
Net investment income earned	4,128,821	
Net realized capital gains (losses)	(324,986)	
Net investment gain (loss)		3,803,835
Total other income		<u>608</u>
Net income before federal and foreign income taxes		3,497,480
Federal and foreign income taxes incurred		<u>(582,209)</u>
Net income		<u><u>4,079,689</u></u>

CAPITAL AND SURPLUS
December 31, 2004

Surplus as regards policyholders, December 31, 2003		\$ 12,753,856
Net income	4,079,689	
Change in net unrealized capital gains or (losses)	2,145,938	
Change in net deferred income tax	(760,869)	
Change in nonadmitted assets	215,995	
Surplus adjustments paid in	6,000,000	
Dividends to stockholders	(3,500,000)	
Change in surplus as regards policyholders	<u>8,180,753</u>	
Surplus as regards policyholders, December 31, 2004		<u><u>\$ 20,934,609</u></u>

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND RECOMMENDATIONS

Conflict of Interest, Page 6

The Company should periodically obtain updated conflict of interest disclosures from the directors and officers.

SUBSEQUENT EVENTS

The Company paid a dividend of \$2,563,200 in April, 2005.

ACKNOWLEDGEMENT

The assistance and cooperation extended by the officers and the employees of Missouri Physicians Associates during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Mike Gruner, AFE, CPA, examiner for the Missouri Department of Insurance, participated in this examination.

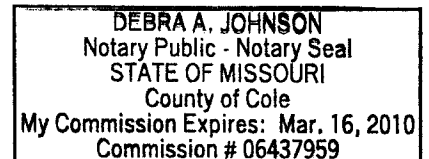
VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Robert P. Jordan, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

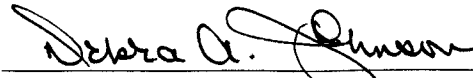


Robert P. Jordan, CFE
Examiner-in-Charge
Missouri Department of Insurance



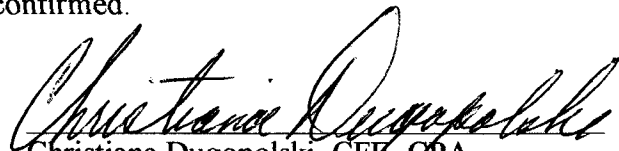
Sworn to and subscribed before me this 3rd day of April, 2006.
My commission expires:

March 16, 2010


Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



Christiana Dugopolski, CFE, CPA
Audit Manager, St. Louis
Missouri Department of Insurance